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**BIOMEDICAL RESEARCH FOUNDATION OF**  
**NORTHWEST LOUISIANA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/22/05

**BIOMEDICAL RESEARCH FOUNDATION OF  
NORTHWEST LOUISIANA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Biomedical Research Foundation of Northwest Louisiana  
Shreveport, Louisiana

We have audited the accompanying consolidated statements of financial position of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation) as of December 31, 2004, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Foundation as of and for the year ended December 31, 2003, were audited by other auditors whose report dated March 19, 2004, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2005, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Postlethwaite & Netterville*  
Baton Rouge, Louisiana  
May 6, 2005



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Biomedical Research Foundation of Northwest Louisiana:  
Shreveport, Louisiana

We have audited the consolidated financial statements of the Biomedical Research Foundation of Northwest Louisiana and its subsidiaries (the Foundation) as of and for the year ended December 31, 2004, and have issued our report thereon dated May 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or errors in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Biomedical Research Foundation of Northwest Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Pastlethwaite & Netterville*

Baton Rouge, Louisiana

May 6, 2005



**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2004 AND 2003**

**ASSETS**

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 1,402,672	\$ 1,493,543
Restricted cash and cash equivalents	317,243	288,514
Unconditional promises to give, net	328,175	383,446
Accounts receivable, net of allowances for doubtful accounts of \$92,396 and \$141,610, respectively	2,220,715	1,252,012
Prepaid expenses and other	329,734	459,082
Bond issuance costs	405,389	493,596
Investments	4,339,780	5,320,090
Property and equipment, net	53,605,952	49,689,495
Total assets	<u>\$ 62,949,660</u>	<u>\$ 59,379,778</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 1,918,200	\$ 918,058
Deferred revenue	-	238,000
Notes payable	5,736,682	4,788,013
Revenue bonds payable, net of discount	17,573,084	18,579,603
Annuities payable	16,140	22,845
Asset retirement liability	89,056	89,056
Total liabilities	<u>25,333,162</u>	<u>24,635,575</u>

**NET ASSETS**

Unrestricted	35,389,300	14,992,740
Temporarily restricted	507,667	18,031,932
Permanently restricted	1,719,531	1,719,531
Total net assets	<u>37,616,498</u>	<u>34,744,203</u>
Total liabilities and net assets	<u>\$ 62,949,660</u>	<u>\$ 59,379,778</u>

The accompanying notes are an integral part of these statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT:</b>				
Support - Philanthropic	\$ 23,089	\$ 258,174	\$ -	\$ 281,263
Rental revenues	3,739,979	-	-	3,739,979
Local government operating grants	1,514,998	-	-	1,514,998
Federal and state grants and contracts	4,924,657	-	-	4,924,657
Investment revenues	527,821	-	-	527,821
Positron Emission Tomography (PET)	3,819,011	-	-	3,819,011
Fluorodeoxyglucose (FDG) sales	1,829,446	-	-	1,829,446
Other revenues	331,982	-	-	331,982
	<u>16,710,983</u>	<u>258,174</u>	<u>-</u>	<u>16,969,157</u>
Net assets released from restrictions	17,782,439	(17,782,439)	-	-
Total revenues and support	<u>34,493,422</u>	<u>(17,524,265)</u>	<u>-</u>	<u>16,969,157</u>
<b>EXPENSES:</b>				
Program services:				
Scientific research initiatives:				
Grants and support for				
scientific investigators	882,240	-	-	882,240
Leased research facilities	2,775,806	-	-	2,775,806
Science park development initiatives:				
Land, infrastructure, and program				
development and marketing	2,986,784	-	-	2,986,784
Grants, loans, and financial activities	76,097	-	-	76,097
Positron Emission Tomography (PET)				
and FDG	5,420,558	-	-	5,420,558
Support services:				
Management and general	1,701,251	-	-	1,701,251
Fund-raising	254,126	-	-	254,126
Total expenses	<u>14,096,862</u>	<u>-</u>	<u>-</u>	<u>14,096,862</u>
<b>CHANGE IN NET ASSETS</b>	<b>20,396,560</b>	<b>(17,524,265)</b>	<b>-</b>	<b>2,872,295</b>
Net assets - beginning of year	<u>14,992,740</u>	<u>18,031,932</u>	<u>1,719,531</u>	<u>34,744,203</u>
<b>Net assets - end of year</b>	<b><u>\$ 35,389,300</u></b>	<b><u>\$ 507,667</u></b>	<b><u>\$ 1,719,531</u></b>	<b><u>\$ 37,616,498</u></b>

The accompanying notes are an integral part of this statement.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2003**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT:</b>				
Support - Philanthropic	\$ 327,078	\$ 266,117	\$ -	\$ 593,195
Rental revenues	3,611,782	-	-	3,611,782
Local government operating grants	1,699,948	-	-	1,699,948
Federal and state grants and contracts	560,920	300,000	-	860,920
Investment revenues	1,047,516	-	-	1,047,516
Positron Emission Tomography (PET)	3,081,537	-	-	3,081,537
Fluorodeoxyglucose (FDG) sales	2,208,870	-	-	2,208,870
Other revenues (expenses)	(77,150)	-	-	(77,150)
	<u>12,460,501</u>	<u>566,117</u>	<u>-</u>	<u>13,026,618</u>
Net assets released from restrictions	2,176,507	(2,176,507)	-	-
Total revenues and support	<u>14,637,008</u>	<u>(1,610,390)</u>	<u>-</u>	<u>13,026,618</u>
<b>EXPENSES:</b>				
Program services:				
Scientific research initiatives:				
Grants and support for scientific investigators	1,088,420	-	-	1,088,420
Leased research facilities	2,633,157	-	-	2,633,157
Science park development initiatives:				
Land, infrastructure, and program development and marketing	3,109,880	-	-	3,109,880
Grants, loans, and financial activities	122,587	-	-	122,587
Positron Emission Tomography (PET) and FDG	5,135,277	-	-	5,135,277
Support services:				
Management and general	1,586,804	-	-	1,586,804
Fund-raising	211,611	-	-	211,611
Total expenses	<u>13,887,736</u>	<u>-</u>	<u>-</u>	<u>13,887,736</u>
Cumulative effect of change in accounting principle	<u>(17,247)</u>	<u>-</u>	<u>-</u>	<u>(17,247)</u>
<b>CHANGE IN NET ASSETS</b>	<u>732,025</u>	<u>(1,610,390)</u>	<u>-</u>	<u>(878,365)</u>
Net assets - beginning of year	<u>14,260,715</u>	<u>19,642,322</u>	<u>1,719,531</u>	<u>35,622,568</u>
<b>Net assets - end of year</b>	<u>\$ 14,992,740</u>	<u>\$ 18,031,932</u>	<u>\$ 1,719,531</u>	<u>\$ 34,744,203</u>

The accompanying notes are an integral part of this statement.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 2,872,295	\$ (878,365)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	2,699,222	2,628,788
Loss on investments	120,000	-
Gain on sales of investments	(350,235)	-
Unrealized gain on investments	(87,288)	(886,162)
Cumulative effect of change in accounting principle	-	17,247
Decrease (increase) in accounts receivable	(913,432)	350,706
Decrease in prepaid expenses and other assets	129,348	32,317
Decrease in accounts payable and other liabilities	(11,598)	(88,270)
Net cash provided by operating activities	<u>4,458,312</u>	<u>1,176,261</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	(3,809,868)	(641,480)
Proceeds from settlement	192,000	-
Purchase of investments	(1,262,778)	(50,000)
Proceeds from sales of investments	2,560,611	-
Net cash used in investment activities	<u>(2,320,035)</u>	<u>(691,480)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Payments on revenue bonds	(1,035,000)	(970,000)
Payments on notes payables	(1,158,714)	(1,057,458)
Payments on annuity obligations	(6,705)	(7,500)
Net cash used in financing activities	<u>(2,200,419)</u>	<u>(2,034,958)</u>
 Net decrease in cash and cash equivalents	 (62,142)	 (1,550,177)
Cash and cash equivalents - beginning of year	<u>1,782,057</u>	<u>3,332,234</u>
Cash and cash equivalents - end of year	<u>\$ 1,719,915</u>	<u>\$ 1,782,057</u>
 <b><u>Supplemental disclosure of cash flow information:</u></b>		
Cash paid during the year for interest	<u>\$ 1,784,411</u>	<u>\$ 1,796,072</u>
Equipment acquisitions financed by notes payable	<u>\$ 2,107,383</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of activities and accounting policies

The accounting and reporting policies of Foundation conforms to accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

Organization

The Biomedical Research Foundation of Northwest Louisiana (the Foundation) is a publicly supported not-for-profit organization which was created to pioneer a knowledge-based regional economy by cultivating and attracting life science enterprises and related technologies. The Foundation promotes and develops (1) private and public support and collaboration for a knowledge-based economic development strategy, (2) InterTech Park as a suitable physical environment for life science enterprises and related technologies, (3) capacities and accomplishments, in collaboration with and support of, LSU Health Sciences Center in Shreveport (LSUHSC-S), (4) human resources and regional knowledge base via K-12, higher education, and technical / professional training programs, and (5) support and resources for technology and business innovation, with people, research, facilities, and funding.

Consolidation

The consolidated financial statements include the accounts of the Biomedical Research Foundation of Northwest Louisiana and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Foundation owns 100% of Intertech Venture Fund, LP (the Fund) through its two wholly owned subsidiaries, InterTech Venture Management, LLC (VC Management) and BRF Capital, LLC (Capital). VC Management functions as the general partner in the Fund and Capital as the limited partner. The operations of the subsidiaries and the Fund are included in these consolidated financial statements. The Fund was formed to provide venture capital to new businesses desiring to locate in Northwest Louisiana and in a manner that generated state tax credits that are available to VC Management and Capital, the investor companies. The Fund will terminate on December 31, 2009, unless terminated earlier or extended by agreement of the partners. The Fund was initially capitalized with \$800,000. During the year ended December 31, 2000, VC Management and Capital sold their available state tax credits to an unrelated party for \$238,000. Certain conditions had to be met by the Fund over a five-year period or it would have been decertified and the proceeds from the sale of the tax credits would have been refunded to the purchaser. During the year ended December 31, 2004, all of the conditions were met and \$238,000 was recognized as income.

During the year ended December 31, 2001, the Foundation formed Southern Isotopes, LLC, a wholly owned subsidiary, to operate a cyclotron in South Louisiana.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of activities and accounting policies (continued)

Restricted cash and cash equivalents

Restricted cash and cash equivalents, which consist primarily of money market funds and short-term certificates of deposit, represent assets held by the trustee under the bond indenture agreement and assets pledged for future decommissioning expenses at its two cyclotron sites.

Accounts receivable

The Foundation maintains an allowance for doubtful accounts based on management's assessment of collectibility, current economic conditions, and prior experience. The Foundation uses historical collection percentages for each type of payor to determine the allowance; these amounts are reviewed on an annual basis.

The Foundation determines if receivables are past-due based on the contractual terms of the sales agreement and accrues interest on past-due accounts. The Foundation charges off receivables if management considered the collection of the outstanding balance to be doubtful.

Investments

The Foundation follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under the provisions of SFAS No. 124, investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Other investments are carried at cost unless there is an indication of a permanent decline in value.

Unrealized gains and losses are recorded in current year operations as increases or decreases in unrestricted net assets. Dividend, interest, and other investment income is recorded as an increase in unrestricted net assets unless the use is restricted by the donor. Realized gains and losses on dispositions are based on the net proceeds and the book value of the securities sold, using the specific identification method, and are classified as temporarily restricted or unrestricted based on donor intent. These realized gains and losses flow through the Foundation's yearly activities.

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized as income for that period.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of activities and accounting policies (continued)

Asset retirement obligations

Effective January 1, 2003, the Foundation adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires the Foundation to record a liability equal to the fair value of the estimated cost to retire an asset. The asset retirement liability must be recorded in the period in which the obligation meets the definition of a liability, which is generally when the asset is placed in service. In accordance with the transition provisions of SFAS No. 143, the Foundation recorded liabilities for the abandonment of the cyclotron assets. To recognize the cumulative effect of this change in accounting principle, the Foundation has recognized a liability of \$89,056 during the year ended December 31, 2003.

Impairment of long-lived assets and long-lived assets to be disposed of

The Foundation accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

InterTech Science Park

In connection with its efforts to create and expand an environment for economic development in Northwest Louisiana, the Foundation is developing a science and technology business park (InterTech Science Park) in an area identified within the City of Shreveport that is in proximity to three healthcare organizations. The activities consist of business incubation, programmatic support, financial incentives, and the purchase of land and buildings and redevelopment of the area into a business park that is attractive to existing and start-up science and technology businesses. This may include renovation of existing facilities or construction of new facilities for sale or lease to prospective companies.

The Foundation records the costs and activities associated with the development in accordance with SFAS No. 67, *Accounting for the Costs and Initial Rental Operation of Real Estate Projects*. As such, direct costs are capitalized as part of the cost of the project. Net income from incidental operations of the land and buildings purchased reduce the carrying value of the property until such time as it is converted to its ultimate use within the planned development.

Costs of borrowing

Financing costs are amortized on a straight-line basis over the period that the related obligation is outstanding.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of activities and accounting policies (continued)

Professional liability claims

The Foundation maintains insurance for protection from losses resulting from professional liability claims. The policy is of the claims-made type. The Foundation has not experienced material losses from professional liability claims in the past. As such, no accrual for losses has been established.

Contributions

The Foundation accounts for contributions in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Unconditional promises to give are recognized as revenue in the period received. Promises to give are recorded at realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.

Local government operating grants

In October of 1997, the voters of Caddo Parish renewed, for a ten year period, a special tax levy by the Caddo Parish Commission (CPC) of two mills on all property subject to taxation for the purpose of economic development through the Biomedical Research Foundation. In October of 2001, the voters of Caddo Parish approved the CPC's plan to rededicate a portion of the millage to public works and extended it for an additional ten years beyond the current expiration date. Receipt of funds by the Foundation is subject to the CPC's approval of budgets submitted by the Foundation. The accompanying consolidated financial statements include revenues of \$1,514,998 and \$1,699,948 for the years ended December 31, 2004 and 2003, respectively, for amounts the Foundation has applied for and the CPC has approved.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of activities and accounting policies (continued)

Income taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

Cash flow statements

For purposes of the cash flow statements, cash and cash equivalents includes operating and restricted funds on deposit at various financial institutions.

Environmental obligations

A provision for environmental obligations is charged to expense when the Foundation's liability for an environmental assessment and/or cleanup is probable and the cost can be reasonably estimated. Related expenditures are charged against the accrued liability.

Concentrations of credit risk

The Foundation maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits.

Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to conform to the current year presentation.

2. Unconditional promises to give

Unconditional promises to give at December 31, 2004 and 2003, are summarized as follows:

	<u>2004</u>	<u>2003</u>
Unconditional contributions expected to be collected in:		
Less than one year	\$ 128,342	\$ 131,603
Two years to five years	<u>210,990</u>	<u>263,000</u>
	339,332	394,603
Discount on future contributions	<u>( 11,157)</u>	<u>( 11,157)</u>
Net unconditional promises to give	<u>\$ 328,175</u>	<u>\$ 383,446</u>

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
**SHREVEPORT, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. Accounts receivable

Accounts receivable consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Due from the State of Louisiana	\$ 931,967	\$ 156,217
Rent receivables	104,486	90,951
Positron Emission Tomography (PET), net	601,985	514,831
Fluorodeoxyglucose (FDG)	237,053	225,550
Loans receivable	220,000	120,000
Other	125,224	144,463
	<u>\$ 2,220,715</u>	<u>\$ 1,252,012</u>

In December of 2002, the Fund loaned \$120,000 to Red River Pharma (RRP). The promissory note bears interest at a rate of 6.00%, requires quarterly payments of interest, and matures on March 31, 2008. The Fund also received a warrant dated December 16, 2002, for the purchase of a 1.00% interest in RRP at the exercise price of \$120,000. This warrant expires on March 15, 2008.

In December of 2004, the Fund loaned \$100,000 to VC Experts.com, Inc. (VC Experts). The convertible promissory note bears interest at 8.00% and matures on December 15, 2009. In accordance with the terms of the promissory note, the Fund has the right to convert the note receivable into cash or common stock of VC Experts.

4. Investments

Investments at December 31, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Mutual funds	\$ 3,814,838	\$ 4,765,313
Common stock	173,347	262,782
Real estate	89,206	89,606
Limited partnership interests	262,388	202,388
Other	1	1
	<u>\$ 4,339,780</u>	<u>\$ 5,320,090</u>

Following is the composition of investment revenues for the years ended December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Dividends, interest, and realized gains	\$ 440,533	\$ 161,354
Unrealized gain on investments	87,288	886,162
	<u>\$ 527,821</u>	<u>\$ 1,047,516</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

4. Investments (continued)

During the year ended December 31, 2004, the Board of Directors of Bio-Tech Imaging, Inc. (BTI) dissolved BTI, sold all of the existing technology and information to a separate, unrelated company, and as a result of this transaction, the Fund recorded a 100% write-down of investment in BTI during the year ended December 31, 2004. This write-down is recorded in the statements of operations.

5. Property and equipment

The composition of property and equipment at December 31, 2004 and 2003 were as follows:

<u>Assets</u>	<u>Estimated useful lives</u>	<u>2004</u>	<u>2003</u>
Land	----	\$ 5,065,016	\$ 5,030,036
Building and improvements	4 - 40 years	45,701,368	46,051,252
Furniture and fixtures	5-20 years	19,434,368	17,464,795
Construction in progress	----	<u>5,293,400</u>	<u>449,080</u>
		75,494,152	68,995,163
Less accumulated depreciation		( 21,888,200)	( 19,305,668)
Property and equipment, net		<u>\$ 53,605,952</u>	<u>\$ 49,689,495</u>

Included in these amounts is property that is being held for lease or future development. These assets are comprised of land, buildings, and construction in progress. The total carrying values of these assets was \$26,971,342 and \$22,441,925 at December 31, 2004 and 2003, respectively. The most significant of these land and buildings is a clean room manufacturing facility.

The Foundation entered into a build-to-suit lease agreement with Bio-Tech Imaging, Inc. (BTI) for manufacturing, laboratory, and office space to be located in a newly constructed facility in the InterTech Science Park. The construction was financed by the issuance of revenue bonds secured by the lease payments on the Virginia K. Shehee Biomedical Research Institute building. Construction began in 2000 and was essentially completed by September 2001. The minimum annual lease payments to be received during the years ended December 31, 2002 through December 31, 2004 were scheduled to be \$2,108,616 per year. BTI occupied the building in September 2001, but defaulted on their lease payments to the Foundation. The facility is currently being remarketed to other potential tenants.

The Foundation and BTI reached a settlement in December 2003 whereby BTI agreed to reimburse certain costs to the Foundation and issued a subordinated debenture to the Foundation for \$1,000,000, with zero percent interest which was due on December 31, 2004. During the year ended December 31, 2004, the Foundation exchanged these debentures and 1,500,000 shares of BTI stock for a 5.00% position in BioTech Partners. Consistent with the Foundation's policy with respect to economic development activities, these debentures and investments have not been recorded due to the uncertainty as to their eventual collection by the Foundation.

Depreciation expense totaled \$2,582,534 and \$2,510,467 for the years ended December 31, 2004 and 2003, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Long-term debt**

On March 1, 2004, the Foundation (the obligor) entered into a Master Financing Agreement with GE Capital Public Finance, Inc. (the lender) and the Louisiana Public Facilities Authority (the issuer). In accordance with the terms of the agreement, the Issuer issues bonds to the lender, and the lender lends the bond proceeds to the Foundation for the purchase of identified equipment.

During the year ended December 31, 2004, the Foundation borrowed approximately \$5,726,000 of the \$15,000,000 available under the Master Financing Agreement. Of these amounts borrowed, approximately \$3,620,000 was used to retire outstanding indebtedness.

Notes payable at December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
<b><i>Notes payable:</i></b>		
Note payable to bank at 7.60%; secured by property; due June 27, 2006	\$ 383,700	\$ 403,829
Note payable to an individual at 7.00%; secured by property; due June 5, 2007	105,274	142,499
Note payable to land owner at 7.00%; secured by property; due September of 2017	149,825	156,864
Note payable to land owner at 7.00%; secured by property; due September of 2017	149,825	156,864
Note payable to equipment vendor at 6.23%; secured by equipment	-	1,341,018
Note payable to equipment vendor at 5.86%; secured by equipment	-	289,176
Note payable to equipment vendor at 5.86%; secured by equipment	-	1,173,176
Note payable to equipment vendor at 6.97%; secured by equipment	-	1,124,587
<b><i>Master financing agreement:</i></b>		
Schedule #1 dated March 1, 2004, in the original amount of \$4,599,611 at 4.25%; secured by equipment; due in monthly installments through April 1, 2009	3,974,071	-
Schedule #2 dated March 1, 2004, in the original amount of \$1,126,264 at 4.50%; secured by equipment; due in monthly installments through April 1, 2009	973,987	-
	<u>\$ 5,736,682</u>	<u>\$ 4,788,013</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

6. Long-term debt (continued)

Revenue bonds payable at December 31, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Revenue bonds payable, net of discounts of \$161,916 and \$190,397 at December 31, 2004 and 2003, respectively, at interest rates ranging from 7.00% to 7.75%; secured by lease payments; due in installments through June 15, 2015	\$ 17,573,084	\$ 18,579,603

The revenue bonds were used to finance the cost of land acquisition, construction, equipping of facilities, and other capital expenditures in support of the InterTech Science Park. The bonds are limited and special revenue obligations of the Louisiana Local Government Environmental Facilities and Community Development Authority. The bonds are secured by an assignment of the revenue generated by the lease of the Virginia K. Shehee Biomedical Research Institute building to the Board of Supervisors of the Louisiana State University and Agricultural and Mechanical College. Cash of approximately \$100,000 at December 31, 2004 and 2003 is restricted for payment of the Foundation's share of operating and maintenance expenses for the building.

The revenue bond discount is being amortized over the life of the bonds. Amortization of bond discount was \$28,481 and \$30,291 for the years ended December 31, 2004 and 2003, respectively.

The long-term debt obligations (notes payable and revenue bonds payable) are scheduled to mature during the years ended December 31<sup>st</sup> as follows:

<u>Year ending December 31<sup>st</sup></u>	<u>Amount</u>
2005	\$ 2,171,684
2006	2,734,803
2007	2,482,178
2008	2,602,495
2009	1,896,367
Thereafter	<u>11,584,155</u>
	23,471,682
Less: unamortized discount	( 161,916)
	<u>\$ 23,309,766</u>

The Foundation incurred interest expenses of approximately \$1,781,237 and \$1,914,693 for the years ended December 31, 2004 and 2003, respectively.

During 2003, the Foundation obtained a \$1,500,000 line of credit with a regional bank. This line of credit is secured by investments of the Foundation, bears interest at the Wall Street Journal prime rate plus fifty basis points (5.75% at December 31, 2004), and will expire on June 11, 2005. The outstanding balances as of December 31, 2004 and 2003 were \$359,616 and -0-, respectively. These liabilities are included in the line titled "accounts payable and accrued expenses" on the consolidated statements of financial position.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

6. Long-term debt (continued)

As part of the revenue bond loan agreement and the master financing agreement, the Foundation has agreed to comply with certain covenants. These consist, primarily, of reporting requirements, restrictions on additional debt and security interests, maintenance of its tax-exempt status, maintenance of its facilities, and other administrative requirements.

7. Annuities payable

The Foundation receives donations through split-interest agreements with contributors. These split-interest agreements specify that the donation is made in return for an individual or joint annuity for the remaining lives of the designees. The difference between the contribution and the liability under the annuity is recognized as revenue in the year received. Upon death, the remaining liability, if any, is recognized as revenue. The Foundation did not receive any such donations during the years ended December 31, 2004 and 2003. The balance of all annuities payable at December 31, 2004 and 2003 was \$16,140 and \$22,845, respectively. The liability was calculated using discount rates between 6.2% and 8.0%.

8. Net assets

Temporarily restricted net assets as December 31, 2004 and 2003, consisted of the following:

	<u>2004</u>	<u>2003</u>
Restricted for specific operating purposes	\$ 507,667	\$ 305,717
Investment in property and equipment	<u>-</u>	<u>17,726,215</u>
	<u>\$ 507,667</u>	<u>\$ 18,031,932</u>

Net assets of \$17,726,215 restricted for investment in property and equipment were released during the year ended December 31, 2004, when certain restrictions relating to the use of the Virginia K. Shehee Biomedical Research Institute building expired on January 18, 2004.

Permanently restricted net assets at December 31, 2004 and 2003 consist of endowment funds the principal of which is permanently restricted and the income of which is unrestricted.

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9. Rental revenues

During the year ended December 31, 1994, the Foundation entered into a cooperative endeavor agreement with the Board of Supervisors of Louisiana State University and Agricultural College (LSU). This agreement sets forth, in part, the terms of the lease of eight of the ten floors of the Virginia K. Shehee Biomedical Research Institute to LSU. During March of 2000, a new lease was entered into that requires the payment of base rent of \$2,445,000 per year plus the first \$585,000 of certain operating expenses, until June 30, 2015. In accordance with the terms of this agreement, the Foundation recorded rental revenues of approximately \$3,361,000 and \$3,235,000 relating to this lease for the years ended December 31, 2004 and 2003, respectively.

During May of 1998, the Foundation entered into a sublease agreement with the Louisiana Center for Manufacturing Sciences (the Center) for the lease of approximately 15,000 square feet of office and warehouse space in Shreveport, Louisiana. The sublease agreement had three consecutive twelve month renewal periods at a rate of \$10,000 per month, and was renewable at the discretion of the Center. The lease terminated on June 30, 2004. The Foundation recorded rental revenues relating to this lease of approximately \$60,000 and \$120,000 for the years ended December 31, 2004 and 2003, respectively.

The future minimum lease payments to be received from these leases as well as additional operating leases for office facilities and real property, during the next five years is as follows:

<u>Year ending</u> <u>December 31<sup>st</sup></u>	<u>Amount</u>
2005	\$ 3,366,815
2006	3,340,675
2007	3,350,126
2008	3,353,276
2009	<u>3,353,276</u>
	<u>\$ 16,764,168</u>

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

10. Federal and state grants

During the year ended December 31, 2003, the Foundation was awarded a Nuclear Energy Research Grant from the Department of Energy. The federal grant was awarded to assist in a joint United States and Russia project to establish a Ural Nuclear Medicine Center in Snezhinsk, Russia. During the year ended December 31, 2004, the Foundation has incurred cost of \$74,997 for assistance provided to the project, \$53,100 of which was reimbursed in 2004. A receivable for the remaining \$21,897 was outstanding at December 31, 2004 and was collected during the year ending December 31, 2005.

During the year ended December 31, 2002, the Foundation was awarded a \$10,000,000 grant through the Louisiana Department of Economic Development for the construction of a wet laboratory incubator facility. During 2004, the Foundation incurred costs of \$4,847,160 for work done in connection with that project. Of the total costs, \$3,915,193 was reimbursed during the year ended December 31, 2004, and the remaining \$931,967 was outstanding at December 31, 2004, and was collected during the year ended December 31, 2005.

11. Fluorodeoxyglucose (FDG) revenues

The Foundation has limited number of customers for the FDG that it produces to sell to third parties. The three largest customers comprised 40% and 45% of the sales during the years ended December 31, 2004 and 2003, respectively. Should one or more of the customers discontinue the purchase of FDG from the Foundation, this could have been a material effect on FDG revenues in future periods.

12. Retirement benefit plan

Retirement benefits are provided for substantially all employees through a defined contribution plan which is sponsored by the American Chamber of Commerce Executives. The retirement benefits are based on the actual value of the employees' account balances at the time of retirement. Employees must be twenty-one years of age and must have completed one year of service before they become eligible to participate in the plan. Employees attain a 20% vested interest in the plan after two years of employment increasing to 40%, 60%, 80%, and 100% over the following four years of employment. Contributions to the plan are based on the participants' salaries. The employer's contributions were approximately \$275,000 and \$216,000 for the years ended December 31, 2004 and 2003, respectively.

The Foundation also has a 403(b) annuity plan. No employer contributions are required for this plan.

13. Related party transactions

During the year ended December 31, 1997, the Foundation, together with three unrelated for-profit entities, formed the Louisiana Center for Manufacturing Sciences (the Center), a nonprofit organization formed to conduct research in the manufacturing sciences and encourage economic development for Northwest Louisiana. Its initial project was in support of a Department of Energy research and development contract for the U.S. Army's Totally Integrated Munitions Enterprise project. The Foundation's president is one of seven board members which have an equal vote in decisions regarding the Center. The Center is a separate organization and is not included in the consolidated financial statements of the Foundation. The Foundation leased property and equipment to the Center in early 2004.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

14. Commitments and contingencies

The Foundation receives a portion of its revenues from government grants and contracts which are subject to audit by the federal government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Foundation receives, directly or indirectly, a portion of its revenues from government grants and tax millages. Although the Foundation does not anticipate a material change in these revenues, there is a possibility that the continued funding of these revenues at current levels could be altered in the future.

The Foundation has pledged to support research at LSU in the amount of \$500,000 each year until 2015. The pledge is contingent upon LSU's fulfillment of certain obligations including having made all required lease payments as well as providing an annual five-year plan for expenditure of the funds which is acceptable to the Foundation. Therefore, the portion of the pledge relating to future years has not been recorded in the accompanying consolidated financial statements.

The Foundation has been notified by the Louisiana Department of Environmental Quality (LDEQ) that one property owned by the Foundation is located on the site of a former creosoting company and that *environmental contamination has been confirmed*. Based on information from LDEQ, all former business entities of the company responsible for the contamination are bankrupt or otherwise defunct. The Foundation and other affected landowners have been asked by the LDEQ to perform a "Site Investigation" to determine the extent of contamination. In management's opinion, this environmental issue will not have a material impact on the net assets of the Foundation. No accrual has been made in these consolidated financial statements due to the Foundation being unable to estimate an amount for future investigation or remediation or the amount of grants that may be available to cover such costs.

A construction contract of approximately \$8,850,000 exists for the construction of a wet lab incubator. At December 31, 2004, the remaining commitment on this contract was approximately \$4,335,000.

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**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2004**

A. Summary of audit results:

- (1) The independent auditors' report expressed an unqualified opinion on the financial statements of the Biomedical Research Foundation of Northwest Louisiana as of and for the year ended December 31, 2004.
- (2) No material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of the Biomedical Research Foundation of Northwest Louisiana were disclosed during the audit.
- (4) A management letter was not issued in connection with the current year audit.

B. Findings - financial statement audit:

- (1) None

**BIOMEDICAL RESEARCH FOUNDATION OF NORTHWEST LOUISIANA**  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2003**

A. Findings - financial statement audit:

(1) None